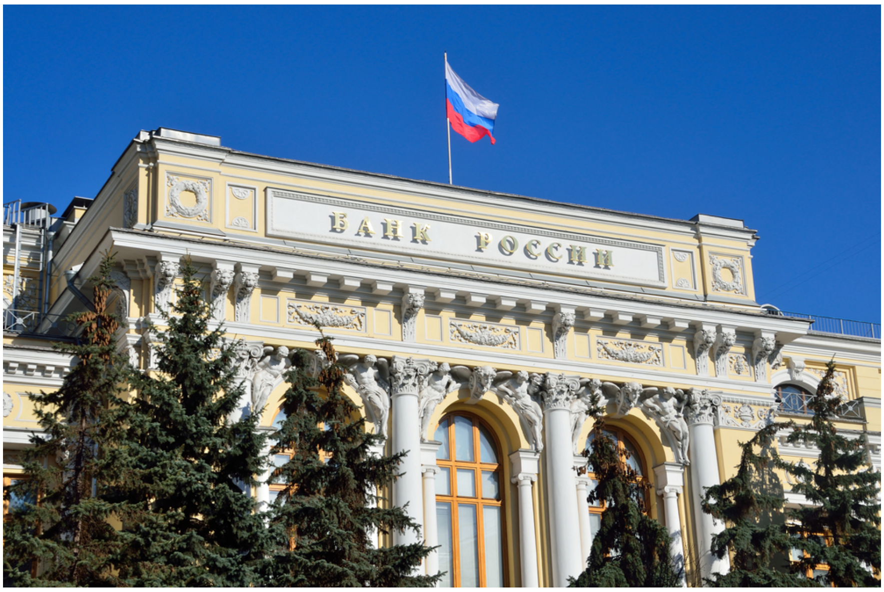
Bank of Russia delivers the cut, guides for more

Bank of Russia (CBR) lowered the key rate by 25bp to 7.0%, in line with expectations. Surprisingly, however, the tone of the commentary remained on the dovish side of the spectrum, despite the recent spike in market volatility, with another cut guided for before the year end, provided there is no significant global risk-off.



Central Bank of Russia, Moscow

7.0%

Russia key rate

a 25bp cut

As expected

The mid-term guidance is more dovish than we expected

The decision to cut the key rate by 25bp to 7.0% was in line with our expectations and market consensus. The key reason was the continued deceleration of CPI from 4.6% YoY at the time of the previous decision to 4.3% YoY in August.

Also, in line with our expectations, the CBR improved the year-end CPI outlook very cautiously, from 4.2-4.7% to 4.0-4.5%. The monetary authorities highlight the temporary nature of the current disinflationary pressure in the fruit and vegetable segment amid shifted seasonality (this year's harvest was collected earlier than usual due to weather conditions).

Lastly, the CBR adjusted its GDP growth expectations for this year from 1.0-1.5% to 0.8-1.3%, perfectly in line with our longstanding 1.0% forecast, accounting for the weak economic performance in 1H19.

The surprise, however, was that the CBR decided to largely ignore the spike in global volatility and maintain a relatively strong dovish signal, guiding for another cut before the year-end if CPI and economic performance is in line with the new forecasts and if the financial markets do not face significant deterioration. This has triggered an immediate positive reaction on the local currency debt market and in the ruble exchange rate.

We take the communique as somewhat controversial because the dovish rate guidance is accompanied by a downgrade in the GDP growth expectations despite the acknowledgement that the growth rate is negatively affected by the budget policy ("In the first half of the year, fiscal policy had a constraining effect on economic activity. This is in part related to slower-than-expected implementation of national projects planned by the government. The expansion of government spending, including investment expenditures, in the second half of 2019 will support economic growth"). This combination of statement may create an impression that the CBR is looking to participate more in boosting economic growth, which would represent a shift in its communication.

Perhaps the upcoming press conference given by the CBR governor Elvira Nabiullina (3pm Moscow time) will provide more colour on the reasoning behind today's signal.

https://think.ing.com/snaps/russia-central-bank-to-cut-and-hold/

Another cut is possible before year end, but global mood is a big IF

Based on the CBR commentary, we revive our earlier view that a further 25bp cut is possible before the year end, particularly at the next core meeting on 13 December, as local CPI and GDP growth are very likely to be in line with the CBR's new forecast. Yet the possibility of further deterioration of the global market mood poses an obvious risk to that view.

Author

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

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